

Understanding the Legislative Landscape

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2022 Key Dates

Campaign Season

House recess: Oct. 3 – Nov. 14

Senate in Oct. 11 – 21

Budget Resolution, Government Funding Expire

Sept. 30

August Recess

House: Aug. 1 – Sept. 12

Senate: Aug. 8 – Sept. 5

Midterm Elections

Nov. 8

Lame Duck Session

Tax Extenders?

July

Aug

Sept

Oct

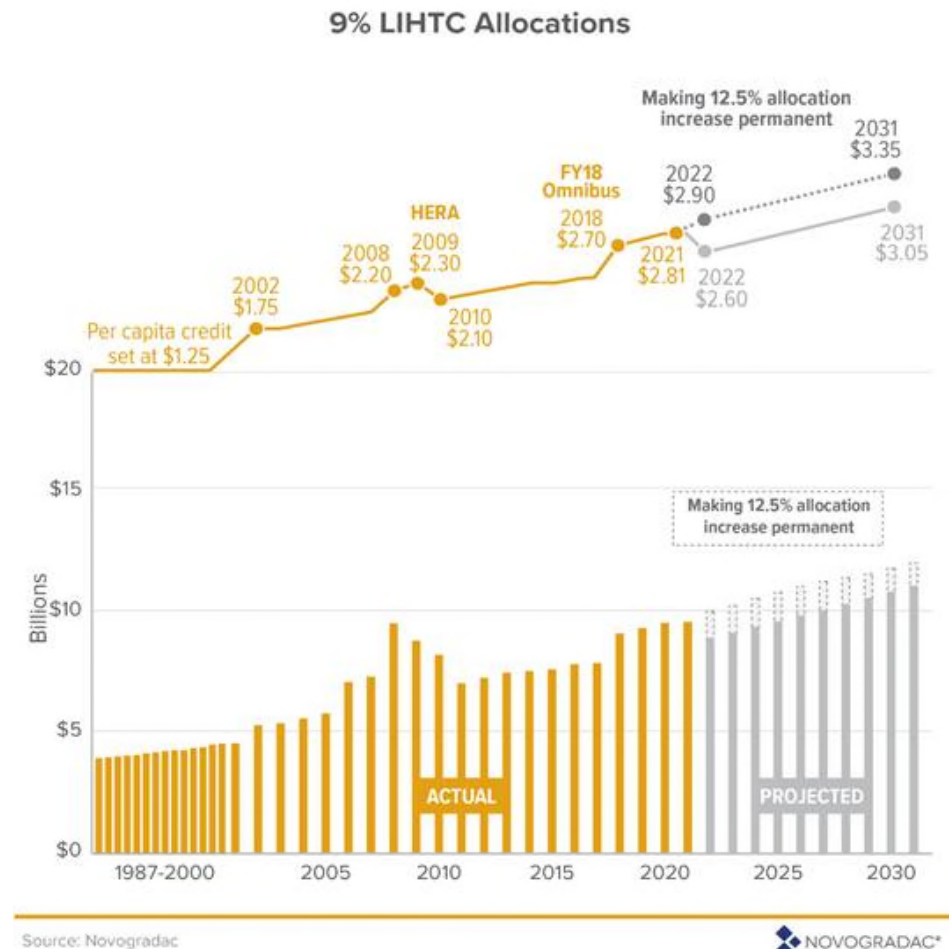
Nov

Dec

Housing Credit Legislative Priorities: Allocation Increase

Increase affordable housing production by:

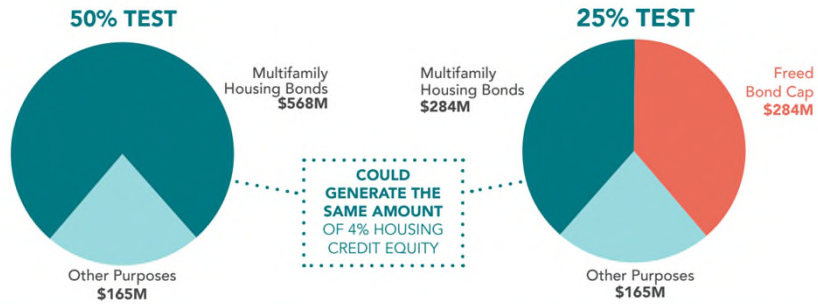
- **Extending** the temporary 12.5 percent Housing Credit allocation that has now expired,
- Further **increasing** the Housing Credit allocation



Housing Credit Legislative Priorities: Lowering 50% test to 25%

IMPACT OF REDUCING THE 50% TEST: More Efficient Use of Limited Resources

AN EXAMPLE OF A STATE'S USAGE OF PAB CAP (based on Massachusetts 2019 data)

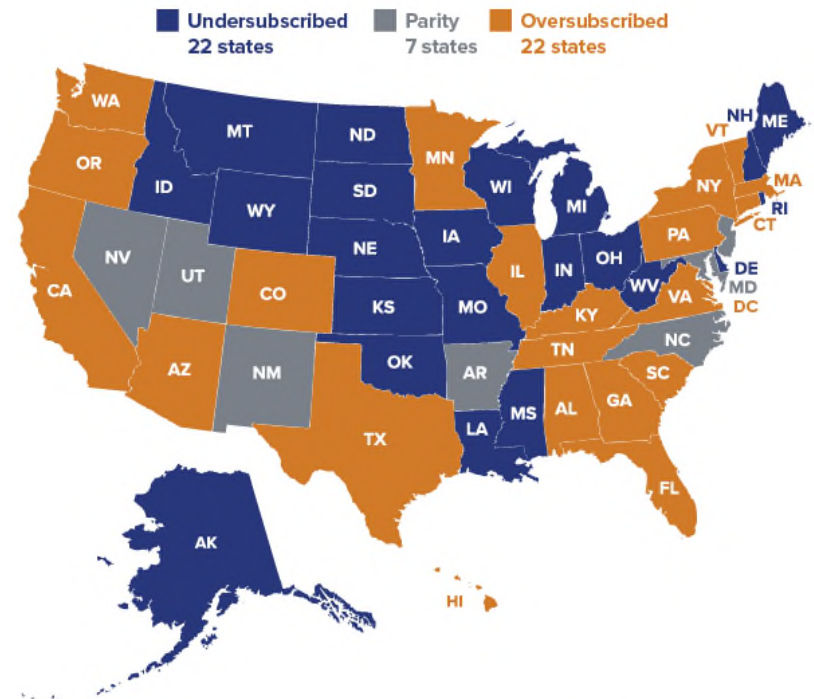


Lowering the 50% Test to 25% for 5 years would produce **735,500** additional affordable homes

Source: Novogradac

Volume Cap Scarcity

AS OF MAY 2022



Source: Tiber Hudson; Novogradac



Affordable Housing Credit Improvement Act

Legislation to Expand and Strengthen the Housing Credit



Sen. Maria Cantwell (D-WA)



Sen. Todd Young (R-IN)



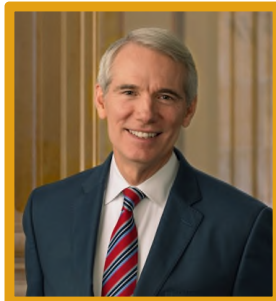
Rep. Suzan DelBene (D-WA)



Rep. Jackie Walorski (R-IN)



Sen. Ron Wyden (D-OR)



Sen. Rob Portman (R-OH)



Rep. Don Beyer (D-VA)



Rep. Brad Wenstrup (R-OH)

**S. 1136: 24 Democrats
10 Republicans**

**H.R. 2573: 109 Democrats + close to 20 Dems in queue
61 Republicans**

Other Housing Credit Legislation

- **LIFELINE Act** to support compatibility of State and Local Fiscal Recovery Funds with the Housing Credit
- **Affordable Housing Bond Enhancement Act** to allow for bond authority to be redesignated for affordable housing
- Curtailing the use of **Qualified Contracts**
- Modifying the **Right of First Refusal**

Bonus Depreciation

- **Background**

- The Investment in the Low-Income Housing Tax Credit requires all tax benefits, including operating losses and depreciation, to flow through to the eventual user of the credit in that respective taxable year
- Depreciation is beneficial to Investors as it reduces their corporate taxable income (21% benefit) thus boosting return / yield targets that are key drivers in determining equity pricing / equity proceeds
- The ability to depreciate 100% of the cost associated with Site Improvements (15-year property) and Personal Property (5-Year property), collectively referred to as “Bonus Depreciation,” benefits the investor’s time value of money on their investments, through allowing those tax benefits to be received in the first calendar year of their investment, rather than proportionally over a five- and fifteen-year horizon
- This acceleration of benefits, translates directly into an increase in the investor’s internal rate of return, collectively referred to as the investor’s “yield”

Bonus Depreciation

- **Bonus Depreciation**

- Bonus depreciation permits for accelerated depreciation in the year the project (or the pro rata portion of a project) is placed into service for 5-year (Personal Property) and 15-year (Site Improvements) items
- Current legislation permits for the accelerated depreciation of 100% for anything placed into service in 2022, and steps down by 20% in each subsequent year till expiration in 2027 (“Bonus Depreciation Sunset”)
- This acceleration of the depreciation timeline allows for greater losses to be delivered to the Investor Limited Partner earlier in the 10-year credit cycle, thus increasing Investor yield, equity pricing and ultimately the total equity that the project receives
- This provides for greater feasibility of projects and is vital to the creation and preservation of affordable housing

Bonus Depreciation

- **Illustrative Example**

- Scenario A assumes that bonus depreciation *is* available. Equity pricing is \$0.88 which provides for a target 6.56% rate of return and produces ~\$39.7mm in total equity
- Scenario B assumes that bonus depreciation *is not* available. Equity pricing subsequently was reduced to \$0.85 to maintain yield neutrality at 6.56%, thus producing \$1.16mm less than it could have otherwise. See next page for further detail.

A	
Bonus Depreciation Overview	
Bonus Depreciation Included	1
Equity Investor IRR	6.56 %
Total Federal Equity Generated	\$ 45,167,907
Tax Credit Equity Pricing	\$ 0.880
Federal Equity Proceeds	\$ 39,743,784

B	
Bonus Depreciation Overview	
Bonus Depreciation Included	-
Equity Investor IRR	6.56 %
Total Federal Equity Generated	\$ 45,176,687
Tax Credit Equity Pricing	\$ 0.854
Federal Equity Proceeds	\$ 38,577,033

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Bonus Depreciation

Bonus Depreciation is critical to providing for increased Investor equity, which is a critical source for the new construction and preservation of affordable housing nationwide

Scenario A (Including Bonus Depreciation)¹

Sources		
	Permanent	Per Unit
TE Perm Loan	\$ 34,150,000	\$ 135,516
LIHTC Equity - 1st Installment	5,961,568	23,657
LIHTC Equity - 3rd Installment	27,820,649	110,399
LIHTC Equity - 4th Installment	5,961,568	23,657
Soft Funds	2,000,000	7,937
Reserved Cash From Operations	2,004,142	7,953
GP Capital Contribution	100	0
Deferred Developer Fee	15,179,442	60,236
Total Sources	\$ 93,077,468	\$ 369,355
(GAP)/SURPLUS	-	-
Total Federal Equity Proceeds	\$ 39,743,784	
Uses		
	Permanent	Per Unit
Acquisition	\$ 3,528,360	\$ 14,001
Construction	66,514,549	263,947
Project Soft Costs	3,236,278	12,842
Permanent Financing	315,375	1,251
Construction & Equity Bridge Fees and Interest	3,054,101	12,119
Tax Credit Fees	477,034	1,893
Bond Costs	679,894	2,698
Reserves	1,365,895	5,420
Developer Fees	13,905,982	55,182
Total Uses	\$ 93,077,468	\$ 369,355
(GAP)/SURPLUS	-	-

Scenario B (Excluding Bonus Depreciation)²

Sources		
	Permanent	Per Unit
TE Perm Loan	\$ 34,150,000	\$ 135,516
LIHTC Equity - 1st Installment	5,786,555	22,963
LIHTC Equity - 3rd Installment	27,003,923	107,158
LIHTC Equity - 4th Installment	5,786,555	22,963
Soft Funds	2,000,000	7,937
Reserved Cash From Operations	1,977,775	7,848
GP Capital Contribution	100	0
Deferred Developer Fee	16,389,058	65,036
Total Sources	\$ 93,093,965	\$ 369,420
(GAP)/SURPLUS	-	-
Total Federal Equity Proceeds	\$ 38,577,033	
Uses		
	Permanent	Per Unit
Acquisition	\$ 3,528,360	\$ 14,001
Construction	66,514,549	263,947
Project Soft Costs	3,236,278	12,842
Permanent Financing	315,375	1,251
Construction & Equity Bridge Fees and Interest	3,067,815	12,174
Tax Credit Fees	477,122	1,893
Bond Costs	679,894	2,698
Reserves	1,365,895	5,420
Developer Fees	13,908,678	55,193
Total Uses	\$ 93,093,965	\$ 369,420
(GAP)/SURPLUS	-	-

Note: Illustrative information as of 15-Jul-2022.

¹ Scenario one assumes per unit construction hard costs of \$232,000, an all-in rate of 6.05% and equity pricing of \$0.880 per LIHTC Credit to remain yield neutral at 6.56%.

² Scenario two assumes per unit construction hard costs of \$232,000, an all-in rate of 6.05% and equity pricing of \$0.854 per LIHTC Credit to remain yield neutral at 6.56%.

Appropriations

FY 2023 Budget Chart for Select U.S. Department of Housing and Urban Development (HUD)	FY 2022 Enacted	FY 2023 President's Budget Request	FY 2023 House	Difference between FY 22 and FY 23 House
Choice Neighborhoods Initiative	350	250	450	100
Community Development Block Grant (CDBG)	3,300	3,770	3,300	0
Family Self-Sufficiency Program	109	120	125	16
Green and Resilient Retrofit Program				0
<i>PBRA, Section 202 and Section 811 properties</i>		250		0
<i>Energy and Water benchmarking</i>		32		0
HOME Investment Partnerships Program (HOME)	1,500	1,950	1,675	175
Homeless Assistance Grants	3,213	3,576	3,604	391
Housing Choice Vouchers	27,370	32,130	31,047	3,677
Housing Counseling Assistance	57.5	65.9	70	13
Housing for the Elderly (Section 202)	1,033	966	1,200	167
Housing for Persons with Disabilities (Section 811)	352	288	400	48
Housing Opportunities for Persons with AIDS (HOPWA)	450	455	600	150
Housing Supply Fund*		35,000		0
Housing Trust Fund (mandatory spending)	0	0		0
Lead Hazard Control and Healthy Homes	415	400	415	0
Native American Housing Block Grants	772	772	772	0
Public Housing				0
<i>Public Housing Capital Fund</i>	3388	3,720	3,400	12
<i>Public Housing Operating Fund</i>	5064	5,060	5,038	-26
Project-Based Section 8	13,940	15,054	14,540	600
Self-Help & Assisted Homeownership (SHOP)	12.5	10	12.5	0
(PRICE)--Manufactured Housing			500	500

Affordable Housing Regulatory Issues: LIHTC

- Investment Issues
 - Community Reinvestment Act modernization
 - 85% of \$22 billion Housing Credit market is CRA-motivated
 - Global Minimum Tax and OECD Pillar II Rules
 - Minimally 48% of Housing Credit investment at risk
- Average Income Test regulations
- Housing Credit deadline extensions



Affordable Housing Regulatory Issues: HUD

- Housing Action Supply Plan
- Income limits



Questions?